Stocks Climb to Record High as Bull Market Enters Fifth Year

Two key barometers of U.S. stock performance -- the S&P 500 and the Dow Jones Industrial Average (DJIA) -- both set record closing highs on March 28, adding further momentum to the bull market now in its fifth year.

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Reaching New Heights

The DJIA hit a new record of 14,578.54 -- its second closing high in the month of March -- and was up 11% for the first quarter of 2013, its best opening quarter since 1998.[1] The S&P 500, which shed more than half of its value during the financial crisis, reached an all-time high of 1569.19 on March 28, and was up 10% year-to-date.[1,2] Following suit, other S&P indices, namely the S&P MidCap 400 and the S&P SmallCap 600, posted first quarter gains of 13.1% and 11.5%, respectively.[2] Meanwhile, stock markets in nearly every other large economy around the world are still well below their records.[3]

Market strategists and economists alike have given part of the credit for the U.S. market recovery to the Federal Reserve for its rapid response to the financial crisis, its cooperation with the federal government in bailing out banks and restructuring the U.S. financial system, and its ongoing stimulus initiatives, including its bond-buying program otherwise known as quantitative easing. These actions, while controversial, and at times contentious, are now being replicated in some fashion by other central banks around the world, including the European Central Bank.[3]

Longer View: The Anatomy of a Bull

Looking past the recent highs, Sam Stovall, chief equity strategist, S&P Capital IQ, takes a longer term view -- and calls on history to add perspective -- as the S&P 500 enters its fifth year of a bull market.

"During the first year of a bull market, the S&P 500 typically dances a 'bull-market three-step' of recovery, retest, and resumption," Stovall explained. After the bottom on March 9, 2009, it took only 10 trading days for the S&P 500 to advance 20% off the bear market low, which is the first criterion for a new bull market.[4] (To be a true bull, the market must stay 20% above the low for at least six months.)

In the second year of a bull market, the direction typically remains the same, but the magnitude declines. Year three is when the typical bull market experiences the most frequent challenge to its longevity, and its character changes from growth to survival.

"The current bull market came very close to missing its third birthday with a decline of 19.4% (on a closing basis) from April 29 through October 3, 2011, but it managed to eke out a 3.9% 12-month price increase during its third year," Stovall observed.[4]

Bull markets that make it past year three have a great chance of celebrating their fourth birthday. Since 1947, the average price increase during the fourth year of a bull market has been slightly below 13%, and only one of the eight bull markets since then that celebrated its third birthday failed to celebrate its fourth.[4]

"In year five," Stovall continued, "the S&P 500 has tended to turn on the after-burners." Since World War II, bull markets have averaged a 21% increase in price, and three out of five went on to celebrate their sixth birthday.[4]

Record Highs in Perspective

While everyone wants to know the implications of the S&P 500 setting a new closing high, S&P analysts maintain that it is what happens after the event that matters most. Toward that end, S&P Capital IQ's Investment Policy Committee believes that the bull market will likely celebrate its fifth birthday in 2014, although the journey to this milestone is expected to be a volatile one. Improvement in global growth remains slow, while the headwinds of dysfunctional governments, increasing levels of debt, and a host of geopolitical tensions remain.[4,5]

In the end, S&P sees an eventual digestion of recent gains offering a more attractive entry point for investors who, up until now, have stood on the sidelines underweight in their desired allocation to stocks.

[1]Source: *The Wall Street Journal*, "Stocks Climb Past a Fresh Milestone," March 28, 2013.

[2]Source: Standard & Poor's Capital IQ, *Global Equity Research,* "Strong Start = Stronger Finish?" April 1, 2013.

[3]Source: *The New York Times*, "Broad-Based S&P Stock Index Ends at Record High," March 28, 2013.

[4]Source: Standard & Poor's Capital IQ, *Industry Surveys: Trends & Projections,* "Happy Birthday, Bull," March 2013.

[5]Source: Standard & Poor's Capital IQ, *U.S. Investment Policy Committee Notes,* March 27, 2013.